

ABSTRACT

Using observable market factors which reflect a current share price, a given share price, volatility in given share price, expected debt recovery fraction, and percentage

5 standard deviation in the expected debt recovery fraction, the instant invention provides probability estimates for no default by a company within a given future time horizon.

The invention has applications in the field of bond and company rating and calculation of credit spreads. The invention also provides a relationship between credit spreads, equity prices and volatility, useful as a price discovery tool in determining fair market price of

10 the credit risk, on a name basis for credits that have public equity.

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